

Message Text

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PAGE 01 TOKYO 00930 01 OF 02 212253Z

67

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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R 210940Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6255

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMIISSON OECD PARIS

UNCLAS SECTION 1 OF 2 TOKYO 00930

DEPARTMENT PASS FEDERAL RESERVE, LABOR AND EXIM BANK

E.O. 11652: N/A

TAGS: ECON, EFIN, ELAB, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF JAN 14-21

SUMMARY(EASIER MONETARY CONDITIONS SINCE APRIL 1975
HAVE RESULTED IN SIGNIFICANT REDUCTIONS IN JAPANESE INTEREST
RATES, DESPITE A RECORD GOJ BUDGET DEFICIT AND FINANCING RE-
QUIREMENTS. BOND PRICES STRENGTHENED ABRUPTLY IN JAN. NEVER-
THELESS, THERE IS NO SIGN THAT DOMESTIC SPENDING AND ECO-
NOMIC ACTIVITY HAVE YET RESPONDED TO THIS MONETARY POLICY
CHANGE. THIS WEEK'S REPORT INCLUDES A REVIEW OF MONETARY
CONDITIONS AND INTEREST RATES DURING 1975. END SUMMARY.

2. THE BROAD MONETARY AGGREGATES, MONEY SUPPLY AND BANK
LOANS, EXPANDED AT A MORE RAPID PACE IN THE SECOND HALF OF
1975. THE BROADLY BASED M2 MONEY SUPPLY INCREASED AT
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PAGE 02 TOKYO 00930 01 OF 02 212253Z

AN ANNUAL RATE OF 16 PERCENT IN THE THIRD QUARTER AND

THE FIRST TWO MONTHS OF THE FOURTH QUARTER. AS SHOWN IN THE TABLE BELOW. THIS WAS A SOMEWHAT FASTER PACE THAN THE 13-14-1/2 PERCENT IN EACH OF THE FIRST TWO QUARTERS OF 1975. BANK LOANS AND DISCOUNTS EXHIBITED A SIMILAR SPEEDUP, ALTHOUGH THE RATES OF INCREASE WERE LESS THAN FOR M2. ON THE OTHER HAND, THE ANNUAL RATE OF INCREASE IN M1 IN OCT AND NOV DROPPED TO ONLY 3 PERCENT IN COMPARISON WITH 16.6 PERCENT IN THE THIRD QUARTER. PERHAPS THAT REFLECTS THE PUBLIC' ANTICIPATION OF A LOWERING IN DEPOSIT RATES AND A TEMPORARY SHIFT OUT OF CASH INTO INTEREST-BEARING DEPOSITS BEFORE THE RATES WERE CUT.

MONETARY AGGREGATES
ANNUAL RATE OF INCREASE IN PERCENT
(BASED ON QUARTERLY AVERAGES OF
SEASONALLY ADJUSTED MONTHLY FIGURES)

	I	II	III	IV (OCT-NOV)
M1	13.5	8.9	16.6	3.0
M2	14.4	12.9	16.0	16.0
LOANS AND DISCOUNTS		10.5	1.5	12.5 1.6
A(GNPANOM- INAL	0.1	13.9	8.0)	

3. FOLLOWING ARE USUAL MONTHLY INDICATORS OF MONEY AND CREDIT. NARROWLY DEFINED MONEY SUPPLY, M ('38 123, S.A2.), INCREASED SHARPLY BY 1.6 PERCENT IN NOV, LARGEST PERCENTAGE GROWTH IN MORE THAN THREE YEARS. HOWEVER, NOV JUMP IN M1 FOLLOWED TWO CONSECUTIVE MONTHLY DECLINES (TOTTALLING 3.8 PERCENT), WHICH IS UNUSUAL EVEN DURING TIGHT CREDIT CONDITIONS. BROADLY DEFINED MONEY SUPPLY M2 (S.A.), CONTINUED STEADY GROWTH IN TWO CONSECUTIVE MONTHS AND RECORDED LARGEST PERCENTAGE INCREASE OF 2.3 PERCENT IN NEARLY THREE YEARS. LOANS AND DISCOUNTS OF ALL BANKS (JEI 133, S.A.), CONTINUED TO RISE IN NOV BUT GROWTH RATE OF 0.8 PERCENT WAS SMALLER THAN IN OCT.

MONEY AND CREDIT, S.A.

(BIL YEN: PCT CH FROM PRIOR MO IN PARENTHESES)

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PAGE 03 TOKYO 00930 01 OF 02 212253Z

	M1	M2	DISCOUNTS
SEPT	44,929 (-3.4)	116,494 (-0.4)	85,389 (0.5)
OCT	44,76 (-0.4)	17,283 (1.5)	86,336 (1.12)
NOV	46,808 (4.6)	120,994 (2.3)	87.037 (0.8)

4. THE BANK OF JAPAN HAS CONTINUED TO LOOSEN CREDIT UNDER ITS "ADMINISTRATIVE GUIDANCE" BY SHARPLY INCREASING THE MAXIMUM LENDING LIMITS OF MAJOR BANKS. BOJ HAS

ANNOUNCED JAN-MAR QUARTERLY LIMIT FOR INCREASE IN TOTAL LOANS BY THE 13 CITY BANKS WILL BE 1,180 BIL YEN. THIS FIGURE REPRESENTS A 26.3 PERCENT INCREASE FROM THE SAME QUARTER A YEAR AGO, AND IS THE LARGEST PERCENTAGE LOAN GROWTH PERMITTED SINCE CREDIT SQUEEZE STARTED IN APRIL 1973.

INCREASES IN CITY BANK LENDING LIMITS

BILLION YEN PERCENT CH FROM PRIOR YEAR

1976 I

(JAN-MAR)	1,180	26.3
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1975 IV

(OCT-DEC)	1,617	24.9
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III

(JULY-SEPT)	1,270	29.6
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II

(APR-JUNE)	920	12.7
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I (JAN-MAR)	934	8.1
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NOTE: LIMIT WAS UPPED BY 190 BIL YEN FOR III QUARTER AND BY 37 BIL YEN FOR IV QUARTER IN 1975. INITIAL LIMIT ON LOAN INCREASE FOR III AND IV QUARTERS WAS 10.2 PERCENT AND 22 PERCENT, RESPECTIVELY.

5. INTEREST RATES, AFTER PEAKING LAST MARCH, HAVE DECLINED AS A RESULT OF THE POLICY OF CREDIT EASE. THE DISCOUNT RATE HAS BEEN REDUCED BY 2.5 PERCENT AND CALL MONEY RATES, WHICH ARE UNDER DIRECT BOJ CONTROL (THROUGH THEIR OPEN MARKET OPERATIONS), HAVE Fallen almost 6 PERCENT. OTHER INTEREST RATES HAVE DECLINED BY LESSER AMOUNTS. THE AVERAGE CONTRACT LENDING RATE OF CITY BANKS (PERHAPS THE BEST BARMETER OF SHORT-TERM BANK RATES), RECORDED A VERY SHARP DROP OF 0.266 PERCENT LAST DEC, TO 8.375 PERCENT PER ANNUM. JAPANESE UNCLASSIFIED

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PAGE 04 TOKYO 00930 01 OF 02 212253Z

ANALYSTS POINT OUT THAT THE CURRENT DECLINE IN CITY BANK LOAN RATES SINCE APRIL 1975 IS EQUIVALENT TO ALMOST HALF (48.1 PERCENT) OF THE DECLINE IN THE DISCOUNT RATE (OF 2.5 PERCENT), ONE FACTOR INHIBITING A FURTHER CUT IN THE CONTRACT RATE IS THE FACT THAT THE AUTHORITIES ARE UNWILLING TO REDUCE DEPOSIT RATES ANY FURTHER DURING THIS ELECTION YEAR WHEN INFLATION IS STILL UPPERMOST IN THE PUBLIC'S MIND. THE CONTRACT RATE EXCLUDES COMPENSATING BALANCES AND OTHER CHARGES. THE TABLE BELOW SHOWS THE EFFECTIVE LENDING RATE CHARGED BY THE TOKYO BRANCH OF THE CHASE MANHATTAN BANK WHICH REACHED A PEAK OF 14.5 PERCENT LAST YEAR HAS DROPPED BY 5 PERCENT TO 9.5 PERCENT PER ANNUM IN JAN.

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PAGE 01 TOKYO 00930 02 OF 02 220153Z

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R 210940Z JAN 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 6256

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

UNCLAS SECTION 2 OF 2 TOKYO 0930/2

CYCLICAL MOVEMENT OF INTEREST RATES

TIGHTER EASIER CURRENT DECLINE SINCE

CREDIT CREDIT RATES 3/1975

AFTER AFTER 1/1976

4/1973 3/1975

DISCOUNT RATE	5.00	9.00	6.50	2.50
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CALL MONEY

RATE	5.885	12.92	7.00	5.92
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AVERAGE CON-

TRACT LENDING

RATE - SHORT

TERM	6.396	9.562	8.64 (NOV)	0.921
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LONG-TERM	7.943	8.790	8.908(NOV)	0.118
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PRIME RATE

(LT)	7.7	9.9	9.21	0.7
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PAGE 02 TOKYO 00930 02 OF 02 220153Z

EFFECTIVE

LENDING RATE

(CHASE BANK) 8.75 14.5 9.5 5.0
(AUG)

DEPOSIT RATE

1 YEAR 5.25 7.75 6.75 1.0

DOND YIELDS

GOJ 7.04 9.35 9.02 (DEC) 0.33
TEL & TEL 7.82 9.74 9.36(DEC) 0.38
CORPORATE 7.53 9.93 9.39(DEC) 0.54

6. THE BOND MARKET HAS BEEN BULLISH DESPITE HEAVY GOJ FINANCING REQUIREMENTS. ON JAN 16, SECONDARY MARKET YIELDS OF ALL INTEREST-BEARING BANK DEBENTURES DROPPED BELOW THE 9 PERCENT LEVEL FOR THE FIRST TIME IN TWO-AND-A-HALF YEARS. (YIELDS REMAINED ABOVE 11 PERCENT LEVEL IN 1974 AND ABOVE 9 PERCENT IN 1975.) A SHARP ADVANCE IN SHORT-TERM BOND PRICES AND DROP IN YIELDS FINALLY BROUGHT THEM BELOW YIELDS ON LONG-TERM BONDS FOR THE FIRST TIME IN THREE YEARS. REFLECTING BULLISH BOND MARKET, BOJ AND MOF NOW CONSIDER POSSIBILITY OF A THIRD CUT IN LONG-TERM RATES, BY 0.2 PERCENT OR MORE IN MARCH. LONG-TERM PRIME RATE HAS ALREADY BEEN LOWERED TWO TIMES SINCE LAST APRIL BY A TOTAL OF 0.7 PERCENT TO 9.2 PERCENT, WHILE SHORT-TERM PRIME RATE HAS BEEN CUT FOUR TIMES BY A TOTAL OF 2.5 PERCENT, TO 6.75 PERCENT DURING SAME PERIOD. ON JAN 20, BOJ ANNOUNCED IT WILL LOWER RESERVE REQUIREMENT RATIO BY 0.25 PERCENT TO 1.75 PERCENT ON TIME DEPOSITS, EFFECTIVE FEB 1. AT PRESS CONFERENCE FOLLOWING THAT ANNOUNCEMENT, BOJ GOV MORINAGA CONFIRMED POSSIBILITY OF A FURTHER CUT IN LONG-TERM RATES. MORINAGA SAID RECENT SHARP ADVANCE OF SECONDARY MARKET BOND PRICES HAS NARROWED GAPS BETWEEN NEW ISSUE PRICES, WHICH CREATES OPPORTUNITY TO CUT LONG-TERM RATES. MORINAGA SAID DIRECT IMPACT OF RESERVE RATE CUT WILL BE SMALL BUT IT WILL PROMOTE FURTHER DECLINE IN CALL AND BILL RATES WHICH WERE LOWERED BY 0.5 PERCENT, EFFECTIVE

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PAGE 03 TOKYO 00930 02 OF 02 220153Z

JAN 21. AS RESULT, CALL RATE (UNCONDITIONAL), STANDS AT 7 PERCENT PER ANNUM, (LOWEST SINCE MAY 1973), AND BELOW YIELD ON ONE-YEAR DISCOUNT BANK DEBENTURES

(7.38(PERCENT). NEW BILL RATE (7.75 PERCENT PER AN-
NUM), ALSO BELOW YIELD ON FIVE-YEAR BANK DEBENTURES
(8.89 PERCENT). ON JAN 20, FIN MIN OHIRA REPEATEDLY
DENIED POSSIBILITY OF YET ANOTHER DISCOUNT RATE CUT.

7. DEC DEPARTMENT STORE SALES FELL 2.7 PERCENT FROM
PRIOR MONTH ON SEASONALLY ADJUSTED BASIS. MITI OFFI-
CIALS ATTRIBUTED DECLINE TO RELATIVELY SMALL YEAR-END
BONUSES, REDUCED GIFT PURCHASES BY CORPORATIONS IN
RESPONSE TO PROTRACTED RECESSION AND IMPACT OF NATION-
WIDE RAIL WALKOUT DURING FIRST WEEK OF MONTH.

INDEX 1970-100 (PCT CH FROM PRIOR MO)

OCT	227.9	0.4
NOV	234.6	2.9
DEC	228.3	12.7

DESPITE MONTH-TO-MONTH FLUCTUATIONS, DEPT STORE SALES
(JEI 302) SHOWED RATHER CONSISTENT PATTERN DURING 1975
WITH RATE OF INCREASE GRADUALLY SLOWING. THIS SLOWING
OF THE SALES GROWTH RATE REFLECTS AT LEAST IN PART,
THE GRADUAL EASING OF JAPAN'S INFLATION RATE.

(PERCENT INCREASE, SEASONALLY ADJUSTED AT ANNUAL RATES)

JAN-MAR APR-JUNE JULY-SEPT OCT-DEC

DEPT STORE

SALES	15.06	10.4	6.1	4.1
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8. PUBLIC CONSTRUCTION EXPENDITURES FELL SHARPLY FOR
THIRD SUCCESSIVE MONTH IN OCT. THE 20 PERCENT DECLINE
FROM PREVIOUS MONTH BROUGHT SEASONALLY ADJUSTED CASH
DISBURSEMENTS FOR PUBLIC CONSTRUCTION (JEI 164), TO
SECOND LOWEST LEVEL OF 1975. DECLINES CONFIRM STATE-
MENTS BY GOJ OFFICIALS THAT PUBLIC WORKS PROJECTS ARE
BEHIND SCHEDULE BECAUSE OF FUND SHORTAGES. FUNDS PRO-
VIDED BY SUPPLEMENTARY BUDGET WOULD, IN FACT, ONLY
MAINTAIN MID-YEAR PACE OF PUBLIC WORKS SPENDING. HOW-
EVER DELAY IN PASSAGE OF SUPPLEMENTARY BUDGET AND RE-
PORTED DIFFICULTIES OF LOCAL COMMUNITIES IN RAISING
THEIR MATCHING PORTION OF FUNDS FOR PUBLIC WORKS MAY
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PAGE 04 TOKYO 00930 02 OF 02 220153Z

HAVE RESULTED IN SLOWING DOWN OF CONSTRUCTION EXPENDI-
TURES AFTER MID-YEAR.

PUBLIC CONSTRUCTION EXPENDITURE, S.A.

	BIL YEN	PCT CH FROM PRIOR MO
AUG	298.9	-24.8
SEPT	263.1	-12.0
OCT	210.1	-20.1

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